Cancorp

G. TAMBLYN, LIMITED

1973 ANNUAL REPORT

BOARD OF DIRECTORS

A. W. K. Besant
W. J. Houston, Phm.B.
A. H. Hutchinson, Phm.B.
George C. Metcalf
W. A. Murray, Phm.B.
E. N. Thompson, Phm.B.
J. A. Watson
W. Galen Weston
R. W. Wilson, Phm.B.

OFFICERS OF THE COMPANY

Chairman of the Board,
George C. Metcalf

President and General Manager,
A. H. Hutchinson, Phm.B.

Vice-President,
E. N. Thompson, Phm.B.

Vice-President, Real Estate Operations,
J. H. Farrell

Vice-President, Treasurer,
T. C. Meagher

Controller,
P. R. Elvins

Secretary,
R. A. Lindsay

STOCK TRANSFER AGENT AND REGISTRAR

Canada Permanent Trust Company, Toronto

AUDITORS

Thorne Gunn & Co.

HEAD OFFICE

84 Sheppard Avenue East,
Willowdale, Ontario

OPERATING DIVISIONS:

Tamblyn Drug Stores
Super Save Drug Marts
Super City Drug Marts
Super Thrift Drugs
Liggett Stores

Highlights of the Year

	Year ended March 31, 1973	Year ended April 1, 1972
Store Sales	$62,083,187	$51,927,530
Net Earnings (Loss)	(138,788)	*432,359
Earnings (Loss) per Common Share	(.56)	*1.45
Dividends per Common Share	1.05	1.05
Capital Expenditures	1,106,212	1,508,492
Common Shareholders' Equity	6,148,213	*6,604,407
Equity per Common Share	21.71	*23.32
Number of stores at end of year	172	174

*Restated — see note 1 to the financial statements

To Our Shareholders:

The fiscal year ended March 31, 1973 was one of mixed achievements – of successes and disappointments.

Sales of $62 million were almost 20% ahead of the previous year. This was made possible through a continuation of the program of new store openings and conversion of traditional Tamblyn stores to the new Super Save Drug Mart concept while at the same time closing unprofitable stores which have outlived their viability in today's changing markets. In all, 16 new stores were opened, 9 converted to Super Save and 22 closed. A strong sales base has been reinforced through these changes and progressive merchandising policies.

A serious difficulty was encountered during the ~~year. With~~ the rapid growth in sales and scope of operations, it became essential to introduce more sensitive and effective reporting systems. As indicated in last year's report, a sophisticated computerized information system was developed and implemented to provide the required management controls. During phasing into the new system, a degree of loss of management control and measurement of results temporarily occurred. As a consequence, a full appreciation of the financial effect of pricing policy decisions was not completely communicated. This, together with the substantial systems change-over costs resulted in an unexpected loss for the year of $139 thousand.

In June 1973, W. Galen Weston, J. A. Watson, A. W. K. Besant and W. J. Houston were appointed Directors to replace Norman S. Robertson, L. S. Mackersy, L. R. K. Hager and W. Struan Robertson.

The Company gratefully acknowledges the dedicated efforts of its employees during a year of change and difficulty.

The year ahead will be one of greatly increased activity and growth. Management strength is being added to all major departments. The program of new store openings and marginal store closings continues and assures increased sales and profitability. Marketing consultants are assisting in developing new merchandising concepts which will better serve our customers as well as improve results.

ON BEHALF OF THE BOARD

A. H. Hutchinson,
President and General Manager

Toronto, July 4, 1973

G. TAMBLYN, LIMITED
(Incorporated under the laws of Canada)
and subsidiary companies

Consolidated Balance Sheet —MARCH 31, 1973
(with comparative figures at April 1, 1972)

ASSETS

	1973	1972*
Current Assets		
Cash	$ 65,302	$ 564,153
Accounts receivable	1,335,588	2,058,862
Income taxes recoverable	269,650	
Inventories, valued on the basis of approximate cost, which is not in excess of net realizable value	16,217,360	12,598,107
Prepaid expenses	180,185	137,571
	18,068,085	15,358,693
Fixed Assets (note 2)		
Land, buildings, equipment and leasehold improvements, at cost	12,058,231	11,245,304
Less accumulated depreciation and amortization	5,410,260	4,874,208
	6,647,971	6,371,096
	$24,716,056	$21,729,789

LIABILITIES

	1973	1972*
Current Liabilities		
Bank advances	$10,670,000	$ 8,590,823
Accounts payable and accrued liabilities	5,761,701	4,168,667
Income and other taxes payable	366,942	309,692
Long term debt due within one year	80,000	115,000
	16,878,643	13,184,182
Long Term Debt (note 3)	645,000	830,000
Deferred Income Taxes	544,200	611,200

SHAREHOLDERS' EQUITY

	1973	1972*
Capital Stock		
Authorized		
15,000 4% Cumulative voting preferred shares, par value $50, redeemable at $51.50 per share		
400,000 Common shares without par value		
Issued		
10,000 Preferred shares	500,000	500,000
283,244 Common shares	1,064,190	1,064,190
	1,564,190	1,564,190
Retained Earnings	5,084,023	5,540,217
	6,648,213	7,104,407
	$24,716,056	$21,729,789

Approved by the Board

JAMES A. WATSON, Director

A. W. K. BESANT, Director

*Restated as set out in note 1

Consolidated Statement of Income

52 WEEKS ENDED MARCH 31, 1973
(with comparative figures for the 52 weeks ended April 1, 1972)

	1973	1972*
Sales	$62,083,187	$51,927,530
Operating profit before undernoted items	$ 541,178	$ 1,561,165
Depreciation and amortization of fixed assets	762,664	679,370
Interest on long term debt	47,302	52,686
	809,966	732,056
Income (loss) before income taxes	(268,788)	829,109
Income taxes (reduction)	(130,000)	396,750
Net income (loss) for the year	$ (138,788)	$ 432,359
Earnings (loss) per common share	$(.56)	$1.45

Consolidated Statement of Retained Earnings

52 WEEKS ENDED MARCH 31, 1973
(with comparative figures for the 52 weeks ended April 1, 1972)

	1973	1972*
Balance at beginning of year		
As previously reported		$ 5,574,214
Adjustment for retroactive change in accounting for deferred charges (note 1)		(148,950)
As restated	$ 5,540,217	5,425,264
Net income (loss) for the year	(138,788)	432,359
	5,401,429	5,857,623
Dividends on		
Preferred shares	20,000	20,000
Common shares ($1.05 per share)	297,406	297,406
	317,406	317,406
Balance at end of year	$ 5,084,023	$ 5,540,217

*Restated as set out in note 1

Consolidated Statement of Source and Application of Funds

52 WEEKS ENDED MARCH 31, 1973
(with comparative figures for the 52 weeks ended April 1, 1972)

	1973	1972*
Source of funds		
Net income (loss) for the year	$ (138,788)	$ 432,359
Add items not involving current funds		
Depreciation and amortization of fixed assets	762,664	679,370
Deferred income taxes (reduction)	(67,000)	140,000
Funds from operations	556,876	1,251,729
Disposal of fixed assets	66,673	21,731
	623,549	1,273,460
Application of funds		
Additions to fixed assets	1,106,212	1,508,492
Reduction in long term debt	185,000	160,000
Dividends	317,406	317,406
	1,608,618	1,985,898
Decrease in working capital	985,069	712,438
Working capital at beginning of year	2,174,511	2,886,949
Working capital at end of year	$ 1,189,442	$ 2,174,511

*Restated as set out in note 1

Notes to Consolidated Financial Statements

52 WEEKS ENDED MARCH 31, 1973

1. Change in Accounting for Deferred Charges

Prior to 1973 the company's policy was to defer a portion of the expenses of store opening, modernization and conversion and expenses of new package development and to amortize these expenses over a period not exceeding three years. Commencing in 1973, the company has adopted and applied retroactively, the policy of expensing such charges in the year in which they are incurred. Accordingly, the comparative figures for 1972 have been restated from amounts previously reported to reflect an additional charge of $150,105 ($75,105 after taxes) to earnings for that year and a charge of $313,950 ($148,950 after taxes) to the retained earnings account at April 3, 1971. The effect of this change on the results of operations for the current year is immaterial.

2. Fixed Assets

	1973			1972
	Cost	Accumulated depreciation and amortization	Net	Net
Land	$ 420,983		$ 420,983	$ 420,983
Buildings	1,663,164	$ 577,084	1,086,080	1,063,057
Furniture and fixtures	7,387,835	3,952,994	3,434,841	3,299,316
Automobiles	126,648	55,672	70,976	53,398
Leasehold improvements	2,459,601	824,510	1,635,091	1,534,342
	$12,058,231	$ 5,410,260	$ 6,647,971	$ 6,371,096

3. Long Term Debt

	1973	1972
Sinking fund debentures		
Series A — 4%, maturing April 1, 1975, entitled to annual sinking fund deposits of $50,000	$ 75,000	$150,000
Series B — 5¼%, maturing April 1, 1978, entitled to annual sinking fund deposits of $65,000	315,000	390,000
Series C — 5½%, maturing April 1, 1982, entitled to annual sinking fund deposits of $45,000	335,000	405,000
	725,000	945,000
Less payments due within one year	80,000	115,000
	$645,000	$830,000

Sinking fund requirements are being met by the purchase and cancellation of sinking fund debentures. As at March 31, 1973 debentures purchased in excess of the requirement for March 31, 1973 amounted to $80,000. This excess has been applied to reduce the required payments due within one year.

The trust indenture under which the sinking fund debentures were issued stipulates that the company may not pay dividends if, after their payment, working capital is less than $1,000,000. At March 31, 1973, working capital was $1,189,442.

4. Long Term Leases

Real estate leases in effect at March 31, 1973 which extend for periods longer than five years from that date have aggregate minimum rentals exclusive of taxes, insurance and other occupancy charges as follows:

Years ending	
1974 — 1978	$13,400,000
1979 — 1983	11,025,000
1984 — 1988	6,650,000
1989 — 1993	3,336,500
After 1993	337,000
	$34,748,500

5. Other Information

	1973	1972
Canada Corporations Act		
Number of directors	9	9
Remuneration of directors as directors	$ 9,901	$ 9,707
Number of officers	4	4
Remuneration of officers as officers	$ 97,703	$ 89,586
Number of officers who are directors	3	3
Ontario Securities Act		
Remuneration of directors and senior officers	$164,685	$170,753

Auditors' Report

To the Shareholders of G. Tamblyn, Limited

We have examined the consolidated balance sheet of G. Tamblyn, Limited and subsidiary companies as at March 31, 1973 and the consolidated statements of income, retained earnings and source and application of funds for the 52 weeks then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances except as noted below.

In the course of converting major sections of the accounting records to a computer system during the year, certain records were lost or inadequately kept with a consequent deterioration in the related accounting and financial controls. As a result, despite the application of extended and alternative auditing procedures, certain expenditures related primarily to inventories and cost of sales were not capable of complete substantiation.

In our opinion, except for the possible effect of the foregoing, the consolidated financial statements present fairly the financial position of the companies as at March 31, 1973 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles. These principles, after giving retroactive effect to the change in accounting for deferred charges explained in note 1, have been applied on a basis consistent with that of the preceding year.

Toronto, Canada
May 11, 1973

THORNE GUNN & CO.
Chartered Accountants

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G. TAMBLYN, LIMITED

DECEMBER 1973 ANNUAL REPORT

Comments To the Year End Statements

Sales for the 39 weeks ended December 29, 1973 were $49.1 million, an increase over the prior year for the same period of $2.6 million, 5.5%. Due to a change in year end a direct comparison to the full fiscal year 1972 is not applicable.

For the 39 weeks ended December 29, 1973 the net loss after extraordinary items was $406,000, a per share loss of $1.49. This compares to a net loss of $139,000, $.56 per share in the March 1973 fiscal year.

Significant changes took place in your Company during the year. The Company terminated its license agreement to operate pharmacy, health and beauty aids and cosmetic departments within the K-Mart division of S.S. Kresge Limited. This meant a reduction of 52 stores, and the resultant sale of inventories, fixed assets and the license agreement to S.S. Kresge. However, your Company agreed to supply, on a wholesale basis, the pharmaceutical departments of the K-Mart division.

During the year, your Company established a Wholesale Division to supply other drug retailers. This division is attracting valuable customers.

The license agreement for 6 stores has been acquired from Koffler Stores Ltd., to operate pharmacy, health and beauty aids and cosmetic departments within Sayvettes Limited.

Your Company continued to grow as it opened 18 new stores, converted 3 Tamblyn stores to Tamblyn Super Save, relocated 1 store and closed 9 obsolete and outmoded stores. There were 129 stores in operation at the close of the year.

The problems of financial and managerial control encountered in the prior year were resolved in 1973. Your Company now has a good system for supplying merchandise to its stores and accounting for same, that will enable it to grow and prosper.

The outlook for 1974 is encouraging. Your Company plans to open 7 new stores and close 4 older Tamblyn stores. The new store model and design, implemented during 1973, has been successful and this basic pattern will be carried forward into the 1974 expansion programme.

The retail drug industry is undergoing intense competition in all areas of Canada but your management is confident that the many positive changes effected in 1973 will result in much improved results in 1974.

I wish to thank the employees of the Company for their dedication over the past year. I also wish to note the retirement of Mr. A. H. Hutchinson, your President since 1969, and to thank him for his many years of dedicated service. Mr. A. H. Hutchinson remains as a Director of the Company.

ON BEHALF OF THE BOARD

W. Galen Weston
President

Toronto, June 3, 1974

DIRECTORS

W. Galen Weston
W. J. Houston
A. H. Hutchinson
G. C. Metcalf
R. R. Huebel
W. A. Murray
J. A. Stout
R. J. Currie
D. A. Nichol

OFFICERS

President and Chief Executive Officer
W. Galen Weston

Vice-President, Real Estate Operations
J. H. Farrell

Vice-President, Merchandising
B. Ferguson

Secretary
R. A. Lindsay

Controller
G. A. Gourlay

STOCK TRANSFER AGENT AND REGISTRAR

Canada Permanent Trust Company, Toronto

AUDITORS

Thorne Gunn & Co.

HEAD OFFICE

84 Sheppard Avenue East,
Willowdale, Ontario

OPERATING DIVISIONS:

Tamblyn Drug Stores
Super Save Drug Marts
Super City Drug Marts
Super Thrift Drugs
Liggett Stores

Highlights of the Year

	Year ended Dec. 31 1973	Year ended March 31 1973
Store Sales	$49,119,745	$62,083,187
Net Earnings (Loss)	(406,151)	(138,788)
Earnings (Loss) per Common Share	(1.49)	(.56)
Dividends per Common Share	.60	1.05
Capital Expenditures	1,954,904	1,106,212
Common Shareholders' Equity	5,557,115	6,148,213
Equity per Common Share	19.62	21.71
Number of stores at end of year	129	172

G. TAMBLYN, LIMITED

(Incorporated under the laws of Canada)
and subsidiary companies

Consolidated Balance Sheet

	December 29, 1973	March 31, 1973
ASSETS		
Current Assets		
Cash		$ 65,302
Accounts receivable	$ 1,038,285	1,335,588
Receivable from affiliated company	558,455	
Income taxes recoverable	315,867	269,650
Inventories, valued on the basis of approximate cost, which is not in excess of net realizable value	15,996,456	16,217,360
Properties for resale, at cost less accumulated depreciation (note 1)	1,401,336	
Prepaid expenses	227,055	180,185
	19,537,454	18,068,085
Licence Fees at cost less amortization (note 2)	114,500	
Fixed Assets (note 3)		
Land, buildings, equipment and leasehold improvements, at cost	10,965,451	12,058,231
Less accumulated depreciation and amortization	4,842,700	5,410,260
	6,122,751	6,647,971
	$25,774,705	$24,716,056
LIABILITIES		
Current Liabilities		
Bank advances	$10,896,150	$10,670,000
Accounts payable and accrued liabilities	7,086,783	5,761,701
Income and other taxes payable	436,657	366,942
Long-term debt due within one year	78,000	80,000
	18,497,590	16,878,643
Advance from Affiliated Company, not payable within one year	575,000	
Long-Term Debt (note 4)	645,000	645,000
Deferred Income Taxes		544,200
SHAREHOLDERS' EQUITY		
Capital Stock		
Authorized		
15,000 4% Cumulative voting preferred shares, par value $50, redeemable at $51.50 per share		
400,000 Common shares without par value		
Issued		
10,000 Preferred shares	500,000	500,000
283,244 Common shares	1,064,190	1,064,190
	1,564,190	1,564,190
Retained Earnings	4,492,925	5,084,023
	6,057,115	6,648,213
	$25,774,705	$24,716,056

Approved by the Board

W. GALEN WESTON, Director

G. C. METCALF, Director

G. TAMBLYN, LIMITED

(Incorporated under the laws of Canada)
and subsidiary companies

Consolidated Statement of Income

	39 Weeks ended December 29, 1973	52 Weeks ended March 31, 1973
Sales	$49,119,745	$62,083,187
Operating profit (loss) before undernoted items	$(1,067,754)	$ 541,178
Depreciation and amortization of fixed assets	656,223	762,664
Interest on long term debt	28,422	47,302
Amortization of licence fees	10,500	
	695,145	809,966
Loss before income taxes and extraordinary items	1,762,899	268,788
Income tax reduction	364,200	130,000
Loss before extraordinary items	1,398,699	138,788
Extraordinary items		
Gain and proceeds on cancellation of licences in K-Mart department stores	1,175,000	
Loss on disposal of fixed assets less deferred income tax reduction of $180,000	(182,452)	
	992,548	
Loss for the period	$ 406,151	$ 138,788
Loss per common share		
Before extraordinary items	$ 4.99	$ .56
Loss for the period	$ 1.49	$ .56

Consolidated Statement of Retained Earnings

	39 Weeks ended December 29, 1973	52 Weeks ended March 31, 1973
Balance at beginning of period	$ 5,084,023	$ 5,540,217
Loss for the period	406,151	138,788
	4,677,872	5,401,429
Dividends on		
Preferred shares	15,000	20,000
Common shares ($.60 per share; March 1973, $1.05 per share)	169,947	297,406
	184,947	317,406
Balance at end of period	$ 4,492,925	$ 5,084,023

Consolidated Statement of Changes in Financial Position

	39 Weeks ended December 29, 1973	52 Weeks ended March 31, 1973
Source of working capital		
Loss for the period		$ 138,788
Add items not involving current funds		
Depreciation and amortization of fixed assets		762,664
Deferred income tax reduction		(67,000)
		695,664
Funds from operations		556,876
Disposal of fixed assets	$ 60,113	66,673
Proceeds from cancellation of licences in K-Mart department stores	1,175,000	
Properties for resale	1,401,336	
Advance from affiliated company	575,000	
	3,211,449	623,549
Application of working capital		
Loss before extraordinary items	1,398,699	
Less items not involving current funds		
Depreciation and amortization of fixed assets	656,223	
Deferred income tax reduction	(364,200)	
Amortization of licence fees	10,500	
	302,523	
Funds applied to operations	1,096,176	
Additions to fixed assets	1,954,904	1,106,212
Reduction in long-term debt		185,000
Dividends	184,947	317,406
Purchase of licences	125,000	
	3,361,027	1,608,618
Decrease in working capital	149,578	985,069
Working capital at beginning of period	1,189,442	2,174,511
Working capital at end of period	$1,039,864	$1,189,442

Notes to Consolidated Financial Statements

DECEMBER 29, 1973

1. **Properties held for resale**
Subsequent to the year end the company entered into an agreement to sell certain of its lands and buildings. For that reason the net book value of these lands and buildings has been reflected as a current asset. Proceeds from these sales are expected to be approximately $5,700,000. The sale has been made on a sale and leaseback basis and accordingly the profit earned on the sale will be recognized over the term of the lease.

2. **Licence fees, at cost**
During the year the company acquired licences to operate drug departments in six retail stores. The cost of these licences is being amortized on a straight line basis to the date of their expiry in 1978.

3. **Fixed Assets**

	December 29, 1973			March 31, 1973
	Cost	Accumulated depreciation and amortization	Net	Net
Land	$ 36,600		$ 36,600	$ 420,983
Buildings	112,998	$ 77,165	35,833	1,086,080
Furniture and fixtures	7,881,999	3,969,345	3,912,654	3,434,841
Automobiles	96,581	53,392	43,189	70,976
Leasehold improvements	2,837,273	742,798	2,094,475	1,635,091
	$10,965,451	$4,842,700	$6,122,751	$6,647,971

4. Long-Term Debt

	December 29, 1973	March 31, 1973
Sinking fund debentures		
Series A—4%, maturing April 1, 1975, entitled to annual sinking fund deposits OF $50,000	$ 75,000	$ 75,000
Series B—5¼%, maturing April 1, 1978, entitled to annual sinking fund deposits of $65,000	313,000	315,000
Series C—5½%, maturing April 1, 1982, entitled to annual sinking fund deposits of $45,000	335,000	335,000
	723,000	725,000
Less payments due within one year	78,000	80,000
	$645,000	$645,000

Sinking fund requirements are being met by the purchase and cancellation of sinking fund debentures. As at December 29, 1973 debentures purchased in excess of the requirement for December 29, 1973 amounted to $82,000. This excess has been applied to reduce the required payments due within one year.
The trust indenture under which the sinking fund debentures were issued stipulates that the company may not pay dividends if, after their payment, working capital is less than $1,000,000. At December 29, 1973, working capital was $1,039,864.

5. Long-Term Leases

Real estate leases in effect at December 29, 1973 which extend for periods longer than five years from that date have aggregate minimum rentals exclusive of taxes, insurance and other occupancy charges as follows:

Years ending	
1974 — 1978	$14,000,000
1979 — 1983	10,300,000
1984 — 1988	5,375,000
1989 — 1993	2,425,000
After 1993	400,000
	$32,500,000

It is the company's intention to enter into a long term lease on the sale of property set out in note 1 at an estimated annual rental of $600,000.

6. Other Information

	Thirty-Nine Weeks Ended December 29, 1973	Fifty-Two Weeks Ended March 31, 1973
Canada Corporations Act		
Number of directors (including five retired during the year)	14	9
Remuneration of directors as directors	Nil	$ 9,901
Number of officers (including three retired during the year)	10	4
Remuneration of officers as officers	$151,562	$ 97,703
Number of officers who are directors (including two retired during the year)	3	3
Ontario Securities Act		
Remuneration of directors and senior officers	$168,952	$164,685

7. Income taxes

The company has the following amounts available to be claimed against taxable income in future years, the tax effect of which has not been reflected in the accounts:

Tax loss-carry-forward expiring 1974-1978	$2,038,000
Less excess of net book value of depreciable fixed assets over undepreciated capital cost	1,256,000
	$ 782,000

8. Change of year end

The company has changed its fiscal year end to the Saturday closest to December 31, effective December 29, 1973.

Auditors' Report

To the Shareholders of G. Tamblyn, Limited

We have examined the consolidated balance sheet of G. Tamblyn, Limited as at December 29, 1973 and the consolidated statements of income, retained earnings and changes in financial position for the 39 weeks then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Our report on the consolidated financial statements for the year ended March 31, 1973 was qualified with respect to the possible effect of certain expenditures relating primarily to inventories and cost of sales not being capable of complete substantiation. This situation continued during the early part of the current period but was rectified prior to December 29, 1973.

In our opinion, the consolidated balance sheet presents fairly the financial position of the company as at December 29, 1973 and, except for the possible effect of any adjustment that might have been required had we been able to substantiate the inventory at March 31, 1973 and certain transactions during the period, both referred to above, the consolidated statements of income, retained earnings and changes in financial position present fairly the results of their operations and the changes in their financial position for the period ended December 29, 1973, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 21, 1974

Thorne Gunn & Co.
Chartered Accountants

G. Tamblyn Limited Annual Meeting June 28, 10:30 A.M. at Tamblyn Head Office, 84 Sheppard East, Toronto, Ontario.